

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Alpha</b>	County <b>Iron</b>
Audit Date <b>3/31/06</b>	Opinion Date <b>7/1/06</b>	Date Accountant Report Submitted to State: <b>7/20/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

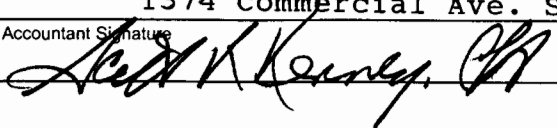
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>x</b>		
Reports on individual federal financial assistance programs (program audits).			<b>x</b>
Single Audit Reports (ASLGU).			<b>x</b>

Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>			
Street Address <b>1374 Commercial Ave. Suite 1</b>	City <b>Crystal Falls</b>	State <b>MI</b>	ZIP <b>49920</b>
Accountant Signature 		Date	

**VILLAGE OF ALPHA**  
**AUDITED FINANCIAL STATEMENTS**  
**ALPHA, MICHIGAN**

**Fiscal Year Ended March 31, 2006**

## TABLE OF CONTENTS

	Page
Independent Auditor's Report .....	3
Management's Discussion and Analysis. ....	5
 <u>FINANCIAL STATEMENTS</u>	
Government Wide Statement of Net Assets .....	9
Government Wide Statement of Activities. ....	10
Governmental Funds Balance Sheet .....	11
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets. ....	12
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance ....	13
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	14
Business Type Funds Statement of Net Assets. ....	15
Business Type Funds Statement of Revenues, Expenses and Changes in Net Assets .....	16
Business Type Funds Statement of Cash Flows .....	17
Notes to Financial Statements .....	18
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedules:	
General Fund .....	29
Major Street Fund .....	30
Local Street Fund .....	31
Pension Funding and Statistics .....	32
 <u>ADDITIONAL INFORMATION</u>	
Comparative Financial Statements:	
Water Utility Fund:	
Balance Sheet. ....	34
Statement of Revenues, Expenses and Changes in Retained Earnings .....	35
Statement of Cash Flows. ....	36
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting. ....	37

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Village of Alpha  
P.O. Box 85  
Alpha, Michigan 49902

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Alpha, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Alpha, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

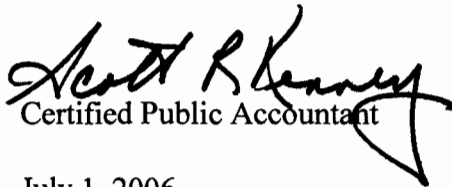
As described in Note A, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of March 31, 2005.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Alpha, Michigan's basic financial statements. The introductory section and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

July 1, 2006

VILLAGE OF ALPHA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets decreased 3.4% from a year ago - decreasing from \$581 thousand to \$561 thousand. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$6,000 during the year (0.5% increase). This is attributed to close budgetary scrutiny and little capital spending. The business-type activities experienced a \$26,000 decrease in net assets, primarily as a result of non-capitalized planning costs incurred in conjunction with a potential sewer project. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current Assets	\$ 108	\$ 89	\$ 125	\$ 128	\$ 233	\$ 217
Noncurrent Assets	<u>31</u>	<u>29</u>	<u>532</u>	<u>554</u>	<u>563</u>	<u>583</u>
Total Assets	\$ 139	\$ 118	\$ 657	\$ 682	\$ 796	\$ 800
Long-Term Debt Outstanding	\$ 0	\$ 0	\$ 197	\$ 202	\$ 197	\$ 202
Other Liabilities	<u>24</u>	<u>9</u>	<u>14</u>	<u>8</u>	<u>38</u>	<u>17</u>
Total Liabilities	\$ 24	\$ 9	\$ 211	\$ 210	\$ 235	\$ 219
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 19	\$ 22	\$ 303	\$ 321	\$ 322	\$ 343
Restricted	12	7	26	26	38	33
Unrestricted	<u>84</u>	<u>80</u>	<u>117</u>	<u>125</u>	<u>201</u>	<u>205</u>
Total Net Assets	\$ 115	\$ 109	\$ 446	\$ 472	\$ 561	\$ 581

**VILLAGE OF ALPHA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
March 31, 2006

Unrestricted net asset—the part of net assets that can be used to finance day to day operations, increased by \$4,000 for the governmental activities. This increase can be attributed primarily to close budgetary control and little capital spending. The current level of unrestricted net assets for our governmental activities stands at \$84,000.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Program Revenues</b>						
Charges for Services	\$ 3	N	\$ 69	N	\$ 72	N
Operating Grants and Contributions	35	O	0	O	35	O
Capital Grants and Contributions	0	T	0	T	0	T
<b>General Revenues</b>						
Property Taxes	\$ 34	A	\$ 0	A	\$ 34	A
State-Shared Revenues	27	V	0	V	27	V
Unrestricted Investment Earnings	2	A	3	A	5	A
Refunds and reimbursements	4	I	0	I	4	I
Sale of land	0	L	0	L	0	L
Other	3	A	0	A	3	A
Transfers	<u>0</u>	B	<u>0</u>	B	<u>0</u>	B
		L		L		L
<b>Total Revenues</b>	<b>\$ 108</b>	<b>E</b>	<b>\$ 72</b>	<b>E</b>	<b>\$ 180</b>	<b>E</b>
<b>Program Expenses</b>						
Legislative	\$ 2		\$ 0		\$ 2	
General Government	39		0		39	
Public Works	53		81		134	
Recreation & Culture	3		0		3	
Community Betterment	1		0		1	
Employee Benefits	3		0		3	
Insurance	<u>1</u>		<u>0</u>		<u>1</u>	
<b>Total Expenses</b>	<b>\$ <u>102</u></b>		<b>\$ <u>81</u></b>		<b>\$ <u>183</u></b>	
<b>Change in Net Assets</b>	<b>\$ 6</b>		<b>\$ (9)</b>		<b>\$ (3)</b>	

The Village's net assets remain at a comfortable level. This can again be attributed to conservative yet necessary planning and spending on operating and capital equipment and projects.

VILLAGE OF ALPHA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2006

Governmental Activities

The Village's total governmental revenues and expenditures remained relatively constant with the prior year.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Funds. The Village provides water and sewer services to its residents. The Village owns and operates both the water and sewer utility system. The revenues in both funds increased due to rate increases while the number of customers remained nearly flat during the year. Sewer expenses increased due to planning costs incurred in planning for a potential future sewer project.

The Village's Funds

Analysis of the Village's major funds begins on page 11, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The Village's major funds for 2005-2006 include the General Fund, Major Street Fund, Local Street Fund and each of the business type funds.

The General Fund pays for most of the Village's governmental services. The most significant are general maintenance of Village property and buildings, parks and recreation, maintaining the Village's equipment, and general administration. These services are primarily funded from property taxes assessed to the residents of the Village and revenues shared with the State of Michigan.

The Village's Water and Sewer Funds are funded primarily through charges to customers for the services received.

General Fund Budgetary Highlights

Over the course of the year, the Village Board amended the budget to take into account events during the year. Various accounts are amended as necessary, unanticipated expenditures are incurred by the Village in the course of its operations.

Capital Asset and Debt Administration

At the end of the 2005-2006 fiscal year, the Village had slightly more than \$525,000 invested in a broad range of capital assets, including land and buildings, office equipment, water and sewer utility systems. In addition, the Village has invested significantly in roads within the Village which are not

VILLAGE OF ALPHA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2006

included in the totals. This is done in accordance with the provisions of Governmental Accounting Standards Board Statement Number 34.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2006-2007 calls for no change in property tax rates. The status quo can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A and decreasing State Shared Revenues, the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the Village will grow at a rate less than inflation, before considering new property additions.

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses. The Village anticipates that further rate adjustments will be necessary as the potential sewer project progresses.

Contacting the Village's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office located in the Village Hall.

VILLAGE OF ALPHA  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
March 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 96,832	\$ 101,985	\$ 198,817
Receivables - net	<u>23,294</u>	<u>22,828</u>	<u>46,122</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 120,126</b>	<b>\$ 124,813</b>	<b>\$ 244,939</b>
<b>RESTRICTED ASSETS - Cash and equivalents</b>	<b>\$ 0</b>	<b>\$ 26,416</b>	<b>\$ 26,416</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment, net of depreciation	\$ 19,281	\$ 505,350	\$ 524,631
Other	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 19,281</b>	<b>\$ 505,350</b>	<b>\$ 524,631</b>
<b>TOTAL ASSETS</b>	<b>\$ 139,407</b>	<b>\$ 656,579</b>	<b>\$ 795,986</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 3,816	\$ 7,872	\$ 11,688
Accrued and other liabilities	20,416	725	21,141
Current part of non-current liabilities	<u>0</u>	<u>5,000</u>	<u>5,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 24,232</b>	<b>\$ 13,597</b>	<b>\$ 37,829</b>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>\$ 0</b>	<b>\$ 21,325</b>	<b>\$ 21,325</b>
<b>NON-CURRENT LIABILITIES</b>			
Revenue bonds payable	\$ <u>0</u>	\$ <u>175,675</u>	\$ <u>175,675</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$ 0</b>	<b>\$ 175,675</b>	<b>\$ 175,675</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 24,232</b>	<b>\$ 210,597</b>	<b>\$ 234,829</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 19,281	\$ 303,350	\$ 322,631
Restricted for			
Capital improvements/equipment	5,212	5,091	10,303
Street improvements	7,134	0	7,134
Unrestricted	<u>83,548</u>	<u>137,541</u>	<u>221,089</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 115,175</b>	<b>\$ 445,982</b>	<b>\$ 561,157</b>

Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF ALPHA**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
Year ended March 31, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities							
Legislative	\$ 2,755	\$ 0	\$ 0	\$ 0	\$ (2,755)	\$	\$ (2,755)
General government	39,622	0	0	0	(39,622)		(39,622)
Public works	53,685	3,322	35,265	0	(15,098)		(15,098)
Parks and recreation	2,708	0	0	0	(2,708)		(2,708)
Community betterment	671	0	0	0	(671)		(671)
Employee benefits	3,073	0	0	0	(3,073)		(3,073)
Insurance	842	0	0	0	(842)		(842)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 103,356</b>	<b>\$ 3,322</b>	<b>\$ 35,265</b>	<b>\$ 0</b>	<b>\$ (64,769)</b>	<b>\$</b>	<b>\$ (64,769)</b>
Business-Type Activities							
Sewer	\$ 35,626	\$ 24,365	\$ 0	\$ 0	\$	\$ (11,261)	\$ (11,261)
Water	45,546	44,156	0	0		(1,390)	(1,390)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 81,172</b>	<b>\$ 68,521</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (12,651)</b>	<b>\$</b>	<b>\$ (12,651)</b>
<b>GENERAL REVENUES</b>							
Property taxes					\$ 33,736	\$ 0	\$ 33,736
State shared revenues and grants					27,329	0	27,329
Unrestricted investments earnings					2,476	3,394	5,870
Refunds and reimbursements					4,609	0	4,609
Other					2,975	0	2,975
SPECIAL ITEM-Gain (loss) on sale of land					0	0	0
TRANSFERS					0	0	0
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>\$ 71,125</b>	<b>\$ 3,394</b>	<b>\$ 74,519</b>
<b>CHANGE IN NET ASSETS</b>							
Net assets - beginning					\$ 6,356	\$ (9,257)	\$ (2,901)
					108,819	455,239	564,058
<b>NET ASSETS - ENDING</b>					<b>\$ 115,175</b>	<b>\$ 445,982</b>	<b>\$ 561,157</b>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF ALPHA  
GOVERNMENTAL FUNDS BALANCE SHEET  
COMBINED BALANCE SHEET  
March 31, 2006

	<u>GENERAL</u>	<u>MAJOR STREETS</u>	<u>LOCAL STREETS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>				
Cash and equivalents	\$ 71,405	\$ 9,575	\$ 15,852	\$ 96,832
Taxes receivable	5,687	0	0	5,687
Accounts receivable	0	0	0	0
Due from other funds	6,532	0	0	6,532
Due from other governmental units	4,917	4,228	1,930	11,075
Inventory	0	0	0	0
Prepaid expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>88,541</u></b>	<b>\$ <u>13,803</u></b>	<b>\$ <u>17,782</u></b>	<b>\$ <u>120,126</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,816	\$ 0	\$ 0	\$ 3,816
Accrued payroll expense	782	190	102	1,074
Accrued taxes and withholdings	1,687	0	0	1,687
Due to other funds	<u>11,123</u>	<u>3,940</u>	<u>2,592</u>	<u>17,655</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 17,408</b>	<b>\$ 4,130</b>	<b>\$ 2,694</b>	<b>\$ 24,232</b>
<b>FUND BALANCES</b>				
Restricted for				
Equipment replacement	\$ 5,212	\$ 0	\$ 0	\$ 5,212
Street improvements	7,134	0	0	7,134
Unreserved	<u>58,787</u>	<u>9,673</u>	<u>15,088</u>	<u>83,548</u>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>71,133</u></b>	<b>\$ <u>9,673</u></b>	<b>\$ <u>15,088</u></b>	<b>\$ <u>95,894</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>88,541</u></b>	<b>\$ <u>13,803</u></b>	<b>\$ <u>17,782</u></b>	<b>\$ <u>120,126</u></b>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF ALPHA  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
March 31, 2006

Total fund balance - total governmental funds	\$ 95,894
---	-----------

Amounts reported for governmental activities in the Statement  
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	<u>19,281</u>
---	---------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>115,175</u></u>
--	-----------------------

VILLAGE OF ALPHA  
 ALL GOVERNMENTAL FUND TYPES  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 Year ended March 31, 2006

	<u>GENERAL</u>	<u>MAJOR STREETS</u>	<u>LOCAL STREETS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
General property taxes	\$ 33,736	\$ 0	\$ 0	\$ 33,736
State shared revenues and grants	27,329	24,734	10,531	62,594
Charges for services	3,322	0	0	3,322
Interest and rentals	24,485	143	575	25,203
Sale of property	0	0	0	0
Refunds and reimbursements	4,609	0	0	4,609
Other	<u>2,975</u>	<u>0</u>	<u>0</u>	<u>2,975</u>
TOTAL REVENUES	\$ 96,456	\$ 24,877	\$ 11,106	\$ 132,439
EXPENDITURES				
Legislative	\$ 2,755	\$ 0	\$ 0	\$ 2,755
General government	36,699	1,230	1,230	39,159
Public works	44,018	17,952	12,957	74,927
Parks and recreation	2,375	0	0	2,375
Community betterment	671	0	0	671
Employee benefits	3,073	0	0	3,073
Insurance	842	0	0	842
Capital outlay	<u>766</u>	<u>0</u>	<u>0</u>	<u>766</u>
TOTAL EXPENDITURES	\$ <u>91,199</u>	\$ <u>19,182</u>	\$ <u>14,187</u>	\$ <u>124,568</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 5,257	\$ 5,695	\$ (3,081)	\$ 7,871
Fund balance - beginning	<u>65,876</u>	<u>3,978</u>	<u>18,169</u>	<u>88,023</u>
FUND BALANCE - ENDING	\$ <u><u>71,133</u></u>	\$ <u><u>9,673</u></u>	\$ <u><u>15,088</u></u>	\$ <u><u>95,894</u></u>

Notes to Financial Statements are an integral part of this statement.

VILLAGE OF ALPHA  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

Net change in fund balance - total governmental funds	\$ 7,871
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation	<u>(1,515)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>6,356</u></u>

VILLAGE OF ALPHA  
STATEMENT OF NET ASSETS  
BUSINESS TYPE FUNDS  
March 31, 2006

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Current Assets:			
Cash and equivalents	\$ 35,922	\$ 66,063	\$ 101,985
Taxes receivable	0	2,923	2,923
Accounts receivable	2,131	6,582	8,713
Due from other funds	<u>3,171</u>	<u>8,021</u>	<u>11,192</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 41,224</b>	<b>\$ 83,589</b>	<b>\$ 124,813</b>
Restricted Assets	\$ 0	\$ 26,416	\$ 26,416
Property, Plant and Equipment:			
Utility plant and equipment	\$ 41,225	\$ 943,357	\$ 984,582
Less accumulated depreciation	<u>(40,255)</u>	<u>(438,977)</u>	<u>(479,232)</u>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 970</b>	<b>\$ 504,380</b>	<b>\$ 505,350</b>
<b>TOTAL ASSETS</b>	<b>\$ 42,194</b>	<b>\$ 614,385</b>	<b>\$ 656,579</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 6,405	\$ 1,467	\$ 7,872
Accrued salaries and wages	316	341	657
Due to other funds	0	68	68
Current portion of long term debt	<u>0</u>	<u>5,000</u>	<u>5,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 6,721</b>	<b>\$ 6,876</b>	<b>\$ 13,597</b>
Long Term Liabilities	\$ <u>0</u>	\$ <u>197,000</u>	\$ <u>197,000</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 6,721</b>	<b>\$ 203,876</b>	<b>\$ 210,597</b>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt	\$ 970	\$ 302,380	\$ 303,350
Restricted for debt service	0	21,325	21,325
Restricted for future construction and improvements	0	5,091	5,091
Unrestricted	<u>34,503</u>	<u>81,713</u>	<u>116,216</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 35,473</b>	<b>\$ 410,509</b>	<b>\$ 445,982</b>

Notes to Financial Statements are an integral part of this statement.

VILLAGE OF ALPHA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BUSINESS TYPE FUNDS  
Year ended March 31, 2006

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>			
User charges	\$ 24,365	\$ 42,525	\$ 66,890
Other	<u>0</u>	<u>1,631</u>	<u>1,631</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 24,365</b>	<b>\$ 44,156</b>	<b>\$ 68,521</b>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 8,184	\$ 11,614	\$ 19,798
Employee benefits	619	1,790	2,409
Supplies and other	5,609	5,693	11,302
Contracted services	17,768	1,015	18,783
Insurance	2,400	3,402	5,802
Utilities	1,015	3,729	4,744
Depreciation	<u>31</u>	<u>6,142</u>	<u>6,173</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 35,626</b>	<b>\$ 33,385</b>	<b>\$ 69,011</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (11,261)</b>	<b>\$ 10,771</b>	<b>\$ (490)</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>			
Interest	\$ 847	\$ 2,547	\$ 3,394
Interest	<u>0</u>	<u>(12,161)</u>	<u>(12,161)</u>
<b>NET INCOME (LOSS)</b>	<b>\$ (10,414)</b>	<b>\$ 1,157</b>	<b>\$ (9,257)</b>
Net assets - beginning	<u>45,887</u>	<u>425,732</u>	<u>471,619</u>
<b>NET ASSETS - ENDING</b>	<b>\$ 35,473</b>	<b>\$ 426,889</b>	<b>\$ 462,362</b>

Notes to Financial Statements are an integral part of this statement.

VILLAGE OF ALPHA  
STATEMENT OF CASH FLOWS  
BUSINESS TYPE FUNDS  
Year ended March 31, 2006

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 23,937	\$ 42,926	\$ 66,863
Payments to suppliers	(24,366)	(21,220)	(45,586)
Payments to or on behalf of employees	<u>(8,715)</u>	<u>(13,448)</u>	<u>(22,163)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ (9,144)</b>	<b>\$ 8,258</b>	<b>\$ (886)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on capital debt	\$ 0	\$ (5,000)	\$ (5,000)
Interest paid on revenue bonds	0	(12,161)	(12,161)
Purchases of capital assets	0	0	0
Funding of restricted accounts	<u>0</u>	<u>(736)</u>	<u>(736)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ 0</b>	<b>\$ (17,897)</b>	<b>\$ (17,897)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned	\$ <u>847</u>	\$ <u>2,547</u>	\$ <u>3,394</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ (8,297)</b>	<b>\$ (7,092)</b>	<b>\$ (15,389)</b>
Cash and equivalents - beginning	<u>44,219</u>	<u>73,155</u>	<u>117,374</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>35,922</u></b>	<b>\$ <u>66,063</u></b>	<b>\$ <u>101,985</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (11,261)	\$ 10,771	\$ (490)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	31	6,142	6,173
Change in Assets and Liabilities			
Receivables - net	(428)	(1,230)	(1,658)
Due from other funds	(3,121)	(7,458)	(10,579)
Accounts payable	6,303	59	6,362
Accrued salaries and wages	88	(44)	44
Due to other funds	<u>(756)</u>	<u>18</u>	<u>(738)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>(9,144)</u></b>	<b>\$ <u>8,258</u></b>	<b>\$ <u>(886)</u></b>

Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF ALPHA**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village of Alpha (Village) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

**Reporting Entity**

The Village is located in Iron County, Michigan and is governed by an elected five member board of trustees (Board). The accompanying financial statements present the government, as the Village does not have any component units that are required to be presented, either discretely or blended.

**Government-Wide and Fund Financial Statements**

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Taxes Receivable—Current Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the 15th day of February of the ensuing year without penalty. The Village bills and collects its own property taxes. Village real property taxes are recognized when levied and personal property taxes are recognized when received.

The Village actually assessed 18.1771 mills for operations with 2.0 mills of that assessment being designated for truck replacement and 4.0 mills of that amount being designated for street improvements. The millage generated assessments of \$21,464.16 for operations, \$3,525.33 for truck replacement and \$7,050.66 for street improvements.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the state shared revenues restricted for major streets and all related expenditures.

The Major Street Fund accounts for the state shared revenues restricted for major streets and all related expenditures.

The Village reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Village's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on February 16<sup>th</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity (Continued)**

Restricted Assets– The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

Capital Assets– Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Village has elected not to report its infrastructure assets which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the Village is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, and Net Assets or Equity (Continued)**

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B - CASH AND INVESTMENTS

**CASH DEPOSITS:**

Cash includes amounts in demand, savings and certificates of deposits with a maturity date within six months of the financial statement date. State statutes authorize the government to invest in bank time accounts, obligations of the U.S. Treasury, commercial paper, corporate bonds, certain mutual funds and repurchase agreements.

The carrying amount of the Village's deposits with financial institutions including certificates of deposit maturing in less than 180 days is \$ 198,817.

Custodial Credit Risk is the risk that in the event of a bank failure, the Village's cash and equivalents may not be returned. The Village held cash in excess of FDIC or NCUA insurance limits in the amount of \$86,025 which was uninsured and uncollateralized at March 31, 2006.

NOTE C - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amounts appropriated in any of its budgetary funds.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	
			<u>Amount</u>	<u>Percent</u>
General-Trustees	\$ 2,755	\$ 2,685	\$ 70	2.6
General-Clerk	2,778	2,568	210	8.2
General-Treasurer	2,291	1,322	969	73.3
General-Office	10,150	9,720	430	4.4
General-Buildings and property	21,480	12,892	8,588	66.6
General-Public Works	41,123	39,947	1,176	2.9

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

NOTE D - ACCUMULATED DEFICITS

The Village does not have accumulated deficits in its unreserved fund balance or retained earnings accounts in any of its funds.

NOTE E - INTERFUND TRANSFERS, RECEIVABLES AND PAYABLE

There were no interfund transfers during the year

NOTE F - INTERFUND RECEIVABLES AND PAYABLE

The March 31, 2006, balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Major Streets	\$ 3,940
General	Local Steets	2,592
Sewer	General	3,103
Sewer	Water	68
Water	General	8,021

NOTE G - CHANGES IN CAPITAL ASSETS

Capital asset activity for the Village for the year ended March 31, 2006 was as follows:

	Beginning	Additions	Disposals	Ending
Governmental Funds				
Assets not depreciated - Land	\$ 6,000	\$ 0	\$ 0	\$ 6,000
Assets depreciated				
Buildings	52,900	0	0	52,900
Equipment	<u>71,250</u>	<u>766</u>	<u>0</u>	<u>72,016</u>
Total at Historic Cost	\$ 130,150	\$ 766	\$ 0	\$130,916
Less Accumulated Depreciation for:				
Buildings	\$ 42,585	\$ 795	\$ 0	\$ 43,380
Equipment	<u>66,770</u>	<u>1,486</u>	<u>0</u>	<u>68,256</u>
Total Accumulated Depreciation	\$ 109,355	\$ 2,281	\$ 0	\$111,636
Net Governmental Funds - Capital Assets	<u>\$ 20,795</u>			<u>\$ 19,280</u>

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

NOTE G - CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning	Additions	Disposals	Ending
Business Type Funds				
Assets depreciated				
Sewer utility system	\$ 41,225	\$ 0	\$ 0	\$ 41,225
Water utility system	943,357	0	0	943,357
Total at Historic Cost	\$ 984,582	\$ 0	\$ 0	\$ 984,582
Less Accumulated Depreciation for:				
Sewer utility system	\$ 40,225	\$ 30	\$ 0	\$ 40,255
Water utility system	416,455	22,522	0	438,977
Total Accumulated Depreciation	\$ 456,680	\$ 22,552	\$ 0	\$ 479,232
Net Business Type Funds - Capital Assets	\$ 527,902			\$ 505,350

NOTE H - CHANGES IN LONG TERM DEBT

1987 Revenue Bond Series I - Water System Bond

The Water System Revenue Bond - Series I - was issued in 1987 for \$219,000 for the purpose of acquiring and constructing additions and improvements to the Village Water Supply System. These bonds are self-liquidating and are not general obligations of the Village. The bond requires annual principal payments as scheduled below and bears interest at the rate of 5.875% per annum. Interest is payable semiannually on July 1 and January 1 of each year.

The bond is subject to redemption prior to maturity at the option of the Village, either in whole or in part; on any interest payment date, at par plus accrued interest.

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
July 1, 2006	\$ 5,493	\$ 0	\$ 5,493
January 1, 2007	9,493	4,000	5,493
July 1, 2007	5,376	0	5,376
January 1, 2008	9,376	4,000	5,376
July 1, 2008	5,258	0	5,258
January 1, 2009	10,258	5,000	5,258
July 1, 2009	5,111	0	5,111
January 1, 2010	10,111	5,000	5,111
July 1, 2010	4,964	0	4,964
January 1, 2011	9,964	5,000	4,964
2011 - 2027	261,882	164,000	97,882
	\$ 337,286	\$ 187,000	\$ 150,286

**VILLAGE OF ALPHA**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**NOTE H - CHANGES IN LONG TERM DEBT (CONTINUED)**

**1987 Revenue Bond Series II - Water System Bond**

The Water System Revenue Bond - Series I - was issued in 1987 for \$31,000 for the purpose of completing additions and improvements to the Village Water Supply System. These bonds are self-liquidating and are not general obligations of the Village. The bond requires annual principal payments as scheduled below and bears interest at the rate of 5.875% per annum. Interest is payable semiannually on July 1 and January 1 of each year.

The bond is subject to redemption prior to maturity at the option of the Village, either in whole or in part; on any interest payment date, at par plus accrued interest.

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
July 1, 2006	\$ 441	\$ 0	\$ 441
January 1, 2007	1,441	1,000	441
July 1, 2007	411	0	411
January 1, 2008	1,411	1,000	411
July 1, 2008	382	0	382
January 1, 2009	1,382	1,000	382
July 1, 2009	353	0	353
January 1, 2010	1,353	1,000	353
July 1, 2010	323	0	323
January 1, 2011	1,323	1,000	323
2011 - 2021	<u>13,232</u>	<u>10,000</u>	<u>3,232</u>
	<u>\$ 22,052</u>	<u>\$ 15,000</u>	<u>\$ 7,052</u>

	<u>Beginning Balance</u>	<u>Newly Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Water Supply Revenue Bond-Series I	\$ 191,000	\$ 0	\$ 4,000	\$ 187,000	\$ 4,000
Water Supply Revenue Bond-Series II	<u>16,000</u>	<u>0</u>	<u>1,000</u>	<u>15,000</u>	<u>1,000</u>
	<u>\$ 207,000</u>	<u>\$ 0</u>	<u>\$ 5,000</u>	<u>\$ 202,000</u>	<u>\$ 5,000</u>

**NOTE I - PENSION PLAN**

The Village contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

All full-time Village employees, officers and elected officials are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits are 1.3% of final average compensation for their last five years of employment multiplied by their years of credited service.

**Actuarial Accrued Liability** - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 1.3% annually for beneficiaries.

GASB 25 INFORMATION (as of 12/31/04)

**Actuarial Accrued Liability:**

Retiree and beneficiaries currently receiving benefits	\$ 0
Terminated employees not yet receiving benefits	17,774
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	0
Employer financed	<u>1,240</u>
Total Actuarial Liability	\$ 19,014
Net assets available for benefits, at actuarial value (Market Value is \$28,250)	<u>29,015</u>
Unfunded (overfunded) actuarial accrued liability	\$ (10,001)

GASB 27 INFORMATION (as of 12/31/05)

Fiscal year beginning	April 1, 2007
Annual required contributions (ARC)	\$ 1,248
Amortization factor used	0.119963

**Contributions Required and Contributions Made** - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

VILLAGE OF ALPHA  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

NOTE J - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Village. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

**VILLAGE OF ALPHA**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
Year ended March 31, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 65,876	\$ 65,876	\$ 65,876	\$ 0
Resources (Inflows)				
Property taxes	32,040	34,966	33,736	(1,230)
State shared revenues and grants	27,500	27,300	27,329	29
Charges for services	3,038	3,322	3,322	0
Interest and rentals	26,325	25,608	24,485	(1,123)
Sale of property	0	0	0	0
Refunds and reimbursements	1,500	4,647	4,609	(38)
Other	<u>10,480</u>	<u>2,975</u>	<u>2,975</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>166,759</u>	\$ <u>164,694</u>	\$ <u>162,332</u>	\$ <u>(2,362)</u>
Charges to Appropriations (Outflows)				
Legislative				
Trustees	\$ 3,000	\$ 2,685	\$ 2,755	\$ (70)
General Government				
Clerk	2,520	2,568	2,778	(210)
Treasurer	2,790	1,322	2,291	(969)
Office	4,875	9,720	10,150	(430)
Buildings and property	16,369	12,892	21,480	(8,588)
Public Works				
Maintenance	27,004	39,947	41,123	(1,176)
Street lighting	4,766	2,321	2,321	0
Sanitation	3,000	574	574	0
Parks and Recreation	5,600	2,375	2,375	0
Community betterment	4,000	671	671	0
Employee benefits	6,815	3,365	3,073	292
Insurance	6,250	6,509	842	5,667
Capital outlay	1,000	766	766	0
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>87,989</u>	\$ <u>85,715</u>	\$ <u>91,199</u>	\$ <u>(5,484)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>78,770</u>	\$ <u>78,979</u>	\$ <u>71,133</u>	\$ <u>(7,846)</u>

VILLAGE OF ALPHA  
BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND  
Year ended March 31, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 3,978	\$ 3,978	\$ 3,978	\$ 0
Resources (Inflows)				
State shared revenues	24,500	26,748	24,734	(2,014)
Interest earned	30	94	143	49
Other	<u>10,480</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 38,988	\$ 30,820	\$ 28,855	\$ (1,965)
Charges to Appropriations (Outflows)				
Salaries and wages	\$ 5,371	\$ 2,372	\$ 2,562	\$ (190)
Employee benefits	0	150	189	(39)
Operating supplies	8,280	3,343	3,343	0
Equipment rental	<u>18,500</u>	<u>13,898</u>	<u>13,088</u>	<u>810</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>32,151</u>	\$ <u>19,763</u>	\$ <u>19,182</u>	\$ <u>581</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>6,837</u></u>	\$ <u><u>11,057</u></u>	\$ <u><u>9,673</u></u>	\$ <u><u>(1,384)</u></u>

VILLAGE OF ALPHA  
BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND  
Year ended March 31, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 18,169	\$ 18,169	\$ 18,169	\$ 0
Resources (Inflows)				
State shared revenues	10,700	11,450	10,531	(919)
Interest	<u>161</u>	<u>304</u>	<u>575</u>	<u>271</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 29,030	\$ 29,923	\$ 29,275	\$ (648)
Charges to Appropriations (Outflows)				
Salaries and wages	\$ 2,871	\$ 3,461	\$ 3,563	\$ (102)
Employee benefits	0	229	273	(44)
Operating supplies	440	712	712	0
Equipment rentals	<u>7,550</u>	<u>10,173</u>	<u>9,639</u>	<u>534</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>10,861</u>	\$ <u>14,575</u>	\$ <u>14,187</u>	\$ <u>388</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>18,169</u></u>	\$ <u><u>15,348</u></u>	\$ <u><u>15,088</u></u>	\$ <u><u>(260)</u></u>

VILLAGE OF ALPHA  
MERS PENSION FUNDING AND STATISTICS  
MARCH 31, 2006

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	(OVER-) UNFUNDED AAL (OAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
31-Dec-03	24,824	18,965	(5,859)	131%	19,240	0%
31-Dec-04	26,808	16,410	(10,398)	163%	4,304	0%
31-Dec-05	29,015	19,014	(10,001)	153%	26,346	0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

YEAR ENDED	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
31-Dec-03	48	100%
31-Dec-04	237	100%
31-Dec-05	679	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.66%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL  
INFORMATION

VILLAGE OF ALPHA  
WATER UTILITY FUND  
BALANCE SHEET  
 March 31, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash and equivalents	\$ 66,063	\$ 73,155
Taxes receivable	2,923	2,160
Accounts receivable - trade	6,582	6,115
Due from other funds	<u>8,021</u>	<u>563</u>
TOTAL CURRENT ASSETS	\$ 83,589	\$ 81,993
Restricted Assets:		
Bond interest and redemption	\$ 4,217	\$ 4,291
Repair and replacement	5,091	4,943
Bond reserve	<u>17,108</u>	<u>16,446</u>
TOTAL RESTRICTED ASSETS	\$ 26,416	\$ 25,680
Property, plant and equipment:		
Water system	\$ 943,357	\$ 943,357
Less accumulated depreciation	<u>(438,977)</u>	<u>(416,455)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 504,380	\$ 526,902
TOTAL ASSETS	<u>\$ 614,385</u>	<u>\$ 634,575</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,467	\$ 1,408
Salaries and wages payable	341	385
Due to other funds	68	50
Current portion - long term liabilities	<u>5,000</u>	<u>5,000</u>
TOTAL CURRENT LIABILITIES	\$ 6,876	\$ 6,843
Long term debt - bonds payable	\$ 197,000	\$ 202,000
FUND EQUITY		
Contributed capital	\$ 366,596	\$ 382,976
Retained earnings:		
Reserved	26,416	25,680
Unrestricted, undesignated	<u>17,497</u>	<u>17,076</u>
TOTAL FUND EQUITY	\$ 410,509	\$ 425,732
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 614,385</u>	<u>\$ 634,575</u>

VILLAGE OF ALPHA  
WATER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
ACTUAL AND BUDGET  
Year ended March 31, 2006 and 2005

	2006 ACTUAL	AMENDED BUDGET	FAVORABLE/ (UNFAVORABLE) VARIANCE	2005 ACTUAL
OPERATING REVENUES				
User charges	\$ 42,525	\$ 42,894	\$ (369)	\$ 37,387
Other	<u>1,631</u>	<u>1,811</u>	<u>(180)</u>	<u>1,728</u>
TOTAL OPERATING REVENUES	\$ 44,156	\$ 44,705	\$ (549)	\$ 39,115
OPERATING EXPENSES				
Salaries and wages	\$ 11,614			\$ 7,868
Employee benefits	1,790			704
Supplies and other	5,693			2,192
Contracted services	1,015			4,458
Utilities	3,729			3,839
Repairs and maintenance	0			0
Insurance	3,402			1,576
Depreciation	<u>6,142</u>			<u>6,142</u>
TOTAL OPERATING EXPENSES	\$ <u>33,385</u>	\$ <u>28,810</u>	\$ <u>(4,575)</u>	\$ <u>26,779</u>
OPERATING INCOME (LOSS)	\$ 10,771	\$ 15,895	\$ (5,124)	\$ 12,336
NON-OPERATING INCOME/LOSSES				
Interest income	\$ 2,547	\$ 2,225	\$ 322	\$ 1,370
Interest expense	<u>(12,161)</u>	<u>(11,632)</u>	<u>(529)</u>	<u>(12,455)</u>
TOTAL NON-OPERATING INCOME/(LOSS)	\$ <u>(9,614)</u>	\$ <u>(9,407)</u>	\$ <u>(207)</u>	\$ <u>(11,085)</u>
NET INCOME/(LOSS)	\$ 1,157	\$ <u>6,488</u>	\$ <u>(5,331)</u>	\$ 1,251
Retained earnings (deficit) - Beginning of period	<u>42,756</u>			<u>41,505</u>
RETAINED EARNINGS (DEFICIT)-END OF PERIOD	\$ <u>43,913</u>			\$ <u>42,756</u>

VILLAGE OF ALPHA  
WATER UTILITY FUND  
**STATEMENT OF CASH FLOWS**  
Year ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 42,926	\$ 37,438
Payments to suppliers	(21,220)	(12,176)
Payments to or on behalf of employees	<u>(13,448)</u>	<u>(8,537)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 8,258</b>	<b>\$ 16,725</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	\$ (5,000)	\$ (5,000)
Interest paid on revenue bonds	(12,161)	(12,455)
Purchases of capital assets	0	0
Funding of restricted accounts	<u>(736)</u>	<u>(379)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (17,897)</b>	<b>\$ (17,834)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ <u>2,547</u>	\$ <u>1,370</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ (7,092)</b>	<b>\$ 261</b>
Cash and equivalents - beginning	<u>73,155</u>	<u>72,894</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>66,063</u></b>	<b>\$ <u>73,155</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 10,771	\$ 12,336
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	6,142	6,142
Change in Assets and Liabilities		
Receivables - net	(1,230)	(1,677)
Due from other funds	(7,458)	0
Accounts payable	59	683
Accrued salaries and wages	(44)	35
Due to other funds	<u>18</u>	<u>(794)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>8,258</u></b>	<b>\$ <u>16,725</u></b>

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Trustees  
Village of Alpha  
P.O. Box 85  
Alpha, MI 49902

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Alpha, Michigan (Village) as of and for the year ended March 31, 2006, which collectively comprise the Village of Alpha, Michigan's basic financial statements and have issued my report thereon dated July 1, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed that some utility customers were not charged amounts for services as dictated by the ordinance.

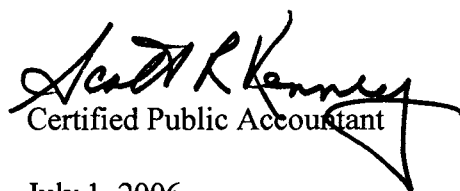
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the Village's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operations that I consider to be a material weakness. However, I noted other matters involving the internal control over financial reporting that I have reported to the Board of Trustees in a separate letter dated July 1, 2006.

This report is intended solely for the information and use of the audit committee, management, Village Board and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
Certified Public Accountant

July 1, 2006

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

The Honorable President and Board of Trustees  
Village of Alpha  
Alpha, Michigan 49902

In conjunction with the audit of the financial statements of the Village of Alpha, Michigan (Village) as of and for the year ended March 31, 2006, I have reviewed the Village's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the Village's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the Village's Board and management and should not be presented or quoted to anyone outside of the Village because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first comment was a repeat comment from the prior audit report.

1. **OBSERVATION** - The amount reflected as a receivable in a Fund did not show a corresponding payable in another fund as is required.

**RECOMMENDATION** - The Due From amounts indicated in each fund should be reconciled with the Due To amounts in each corresponding fund on a monthly basis.

2. **OBSERVATION** - Some items listed as outstanding or in transit on the various bank reconciliations have been carried for several months. Most of these amounts are being carried in error.

**RECOMMENDATION** - All items that are outstanding or in transit should be reviewed by the Village staff and cleared from the reconciliations as appropriate.

3. **OBSERVATION** - Several invoices were not approved for payment by the individual ordering the goods or services on behalf of the Village.

**RECOMMENDATION** - I recommend that all invoices be approved by the department that requests the goods or services. That individual should also properly classify the invoice to facilitate proper classification of the expenditure within the financial records.

4. **OBSERVATION** - In some cases, cash/checks are left on garbage bags to be picked up by Village personnel. In addition, the "garbage tags" are not always issued sequentially even though they are pre-numbered and the receipts do not include the "garbage tag" sequence.

**RECOMMENDATION** - I recommend that no bag be picked up by Village personnel without the proper tag. Further, the Public Works personnel should not be asked to handle funds on behalf of the Village during the course of their job duties. Finally, all tags should be issued sequentially with the corresponding receipt clearly indicating the sequence of tags issued.

I would like to thank the Village Board for allowing me to conduct the audit of the records and especially thank Jessica Davis and Tom McCarthy for their assistance during the audit.

If the Village would like my assistance in implementing any of the above recommendations, I am willing to assist you in any way that I can.

  
Certified Public Accountant

July 1, 2006